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## Moody's changes Wisconsin Energy outlook to negative following Integrys deal

By Nazia Qureshi

Moody's on June 23 changed [Wisconsin Energy Corp.](#)'s ratings outlook to negative from stable following the Milwaukee-based company's announcement to [acquire Integrys Energy Group Inc.](#) in a deal valued at \$9.1 billion.

The change in ratings outlook considers Moody's expectation that the transaction, if completed, would deteriorate Wisconsin Energy's credit profile as it is acquiring a company with a weaker credit profile in a leveraged transaction. Specifically, over the next three years, the ratio of cash flow from operations before working capital adjustments to debt and retained cash flow to debt is expected to fall below 19% and 15%, respectively, the rating agency said.

Under the terms of the [transaction](#), Integrys shareholders will receive common stock at a fixed exchange ratio of 1.128 Wisconsin Energy shares plus \$18.58 in cash per Integrys share. The total consideration is valued at \$71.47 per Integrys share, with a consideration mix of 74% stock and 26% cash.

"Upon the completion of the transaction, WEC will benefit from the larger size and the complementary nature of the operations of the combined group in Wisconsin as well as from a more diversified footprint in operational and geographical reach," Moody's Vice President Natividad Martel said. "The latter factors Integrys' multi-state operations and its significant natural gas distribution operations in Illinois via [Peoples Gas Light and Coke Co.](#) and [North Shore Gas Co.](#)]"

Concurrently, Moody's put the long-term ratings of Integrys Energy Group under review for upgrade after the company's disclosure that it is in the late stages of a competitive process to divest its unregulated retail operations. The review for upgrade will be concluded shortly, and will focus on the divestiture of the retail operations, the rating agency said.

"The lower business risk that will result from the elimination of the retail business is the impetus for bringing the ratings of Integrys one notch closer to its utility subsidiaries. Moody's will focus the review for upgrade on the divestiture of [Integrys Energy Services Inc.](#)," Moody's analyst Lesley Ritter said.

In addition, Moody's affirmed certain ratings of Wisconsin Energy and Integrys Energy Group, including their subsidiaries. The ratings outlook for [Wisconsin Electric Power Co.](#) and [Wisconsin Gas LLC](#) is stable.